

STATE OF THE STATE 2009  
JANUARY 13, 2009  
PIERRE, SOUTH DAKOTA  
GOVERNOR M. MICHAEL ROUNDS

Thank you very much. Lieutenant Governor Dugaard, Mr. Speaker, members of the State Senate and State House of Representatives, my fellow public servants, and the people of South Dakota.... welcome to the 2009 legislative session.

Being chosen by our fellow citizens to serve them is a great honor and a great challenge. So, I want to begin today by thanking the people of South Dakota for putting their trust in all of us.

I want to also give a special welcome to all our new legislators. I remember my first day as a legislator in 1991. You will soon learn that your colleagues are wonderful people who, like you, want to work hard to solve problems and create new opportunities for the people of our state.

This year, we must make some very tough choices.

As we all know, South Dakota is a great place to live and work. That's why we stayed here or came here to live. We chose to live here.

This will be a very challenging year for our nation and for us. That's why, during this legislative session, we must remember that we can't spend more than what we have. We can't spend more than what we have, because that's the best way to make sure South Dakota continues to be a great place to live and work, now and for the next generations of South Dakotans as well.

We have a national recession. But, we aren't going to sit back and let things happen to us. We can turn this national economic downturn into more jobs right here in South Dakota. I'm going to work hard to help make that happen. We will not only survive the next 18 months, but we will also lay the foundation now to do even better in the future with greater growth and more prosperity for our people.

Six weeks ago, I gave you a very cautious budget for these uncertain economic times that will fund our basic needs of protecting the public, educating our students, and taking care of those who have no one else to take care of them. 98.4 percent of the increases in the budget were mandated by federal or state law. Because revenue projections were lower than anticipated, I had only proposed \$388,695 in discretionary spending increases. Today, 6 weeks later, our economic projections are now worse than they were on December 2<sup>nd</sup>.

But, before we discuss the numbers, let's take a minute and put this in the right perspective. There are different kinds of problems and challenges that we face in a lifetime. If your child is sick with disease...If your friend or a loved one is dying...If you are faced with terrible situations you have no control over or can't change...then those are real problems...and they can't be fixed with just money. But, what we have today is fixable. It is a money thing, and we can deal with it. It is true that it is painful, and it presents a great challenge, but it is solvable. It is adjusting budgets. It's reallocating priorities.

Unfortunately, our economy is weakening faster than we had anticipated. It had been estimated that the revenues in December would be \$86 million from all our resources, but instead, they totaled only \$80.9 million for the month.

Normal year-to-year sales tax collection rate increases are also trending downward. September 2008 collections were 9.3 percent higher than September 2007. But, December 2008 collections were 2.1 percent lower than December 2007.

Also, since December 2<sup>nd</sup>, several other states have announced drastic steps to deal with their projected revenue shortfalls. For example, Iowa is cutting state aid to local schools by \$33 million. Maryland is reducing state aid by \$38 million. Utah is cutting tourism advertising by a full third, while Hawaii is increasing theirs. Vermont is reducing funds to agencies that serve the developmentally disabled. We haven't had to take those drastic steps, because we don't have the huge revenue ups and downs like other states that depend on state income taxes. Although it is not performing as well as we would like, our sales tax is simply more stable than an income tax. That's one of the greatest advantages of South Dakota not having an income tax.

Although we are in better shape than other states, we must take additional steps this session to address the decreases in tax collections. Therefore, I am asking to speak to you again in joint session on Thursday, January 22<sup>nd</sup>, to give you a new, adjusted budget proposal.

I can tell you right now that I do not intend to ask for new taxes to fix this general fund shortfall that we are experiencing. Instead, the Department of Revenue will be proposing to remove the special sales tax exemptions some people have had for several years. Removing certain exemptions would provide another \$3,054,000 in ongoing state revenues and as much as \$1.6 million in sales tax revenues to our cities. I believe it is better to have previously exempted products included in our tax base, rather than increase tax rates on everyone else. I am working on other solutions that I will propose and present to you next week.

I know that some people will want to keep their tax exemptions and not pay or collect sales taxes like the rest of us. Similarly, there are people who will not want to pay the higher fees I announced in the budget proposal, even though many of those fees have not been raised in many years. These people and groups will argue that they are special and should continue to receive special treatment. I hope you will resist those

arguments. Due to inflation, fees should not stay the same forever. People benefiting from the services provided should pay more of the cost involved.

And, when it comes to sales taxes, the best taxes are those where the burden is shared as equally as possible...without special exemptions.

An interesting sidebar to this is that, if Congress had already passed the Streamlined Sales Tax Act, we wouldn't be having these revenue problems. If Congress would ever pass it, then purchases made on the internet and through catalogue mailings would be taxed the same as things bought from retailers on main street. We would have a level playing field in sales taxes all across this country, and South Dakota would be receiving over \$40 million more in state sales taxes, and local governments would be getting \$20 million more in local sales taxes we aren't allowed to collect today. So, if Congress really wants to help the states, it should create fair taxation and pass the Streamlined Sales Tax Act this year. But, again, we can't rely on Congress to do that. We need to solve our budget problems ourselves regardless of how the national economy impacts us.

We will face many challenges over the next 18 months. But, there are two big challenges that rise above the rest. Our first challenge is that we can't spend more than what we have, because that's the best way to make sure South Dakota continues to be a great place to live and work, now and for all the next generations of South Dakotans.

For those who choose to spend more money than the budget proposal, please realize that you can no longer draw down the property tax reduction fund or overestimate revenues like other years. The property tax reduction fund is already drained, and it's obvious that higher revenues just won't be there.

You and I will hear a lot of new spending requests and calls for ongoing spending increases this year, just like every year. We need to have the determination to say no.

You and I will also hear requests that we should promise more people more money in the future. We must make the choice to also have the determination to say no to that as well. Please, don't obligate yourselves by promising more money for the future, when you don't know if you will have it, when the time comes to pay it.

Decisions about future spending beyond fiscal year 2010 should be made by future legislatures, not this legislature. Therefore, if you want to spend more money this year and into the future, you must also be willing to pass a law that delivers the new, ongoing funding to pay the bill every year.

Together, we must be disciplined to do only what we can do. We should not commit dollars that may or may not be there in the future.

If you really choose to spend more money, you must ask yourself, am I willing to increase taxes? And, if so, on whom? Or, you must ask yourself, am I willing to propose a cut in services to certain people? If so, who will be hurt by those cuts? Those are the two questions I wrestled with every day in preparing the budget. And now, together, we will wrestle with those two questions again until March 30<sup>th</sup>.

I believe we are up to the challenge of not spending more than what we have. It's your choice. Just like the previous generations of South Dakotans who have survived and prospered through challenges, I believe we can, too.

Robert Karolevitz wrote about many of those challenges in a wonderful history of South Dakota in 1975, entitled CHALLENGE: the South Dakota Story. He wrote, among other things, about the challenge of statehood, the challenge of the new frontier, the challenge of boom and bust, the challenge of the Great Depression, the challenge of taming the Missouri River, and the challenge of world wars.

In that book, he also wrote that South Dakotans have a “fierce, but quiet pride” in solving problems, achieving beyond anyone's expectations and, not only surviving, but prevailing against every challenge they are given. That persistence and determination to solve, to achieve, and to prevail is alive and well today, and I believe you can feel it whenever South Dakotans come together and meet in this Capitol.

Our citizens are already leading the way. Recently, we have seen the inspiring example of a South Dakota determination to overcome any challenge in the story of Benchmark Foam at Watertown. It is an excellent company that makes expanded polystyrene and other specialty plastics for packaging, construction insulation, foam roofing systems, exterior finish systems, decorations, signs, and other custom products.

In the early morning hours of Saturday, December 6<sup>th</sup>, a fire started in the south end of the Benchmark Foam manufacturing plant. Within 15 minutes, the building was totally engulfed and everything was lost, somebody said, “right down to even the staples.” That morning, the first line in the news story was CEO Tom Devine saying that he would take care of his employees. He would rebuild, and they would have their jobs. Within hours, he and the Benchmark team of 49 employees were setting up a new office and making arrangements for uninterrupted production of their products. By Monday morning, they were back in business—without ever missing a day of work. From within Watertown and from across the state came dozens of offers of equipment, office supplies, furniture—whatever it would take to help. Today, they are operating in leased facilities and are as strong a company as they were before.

Ladies and gentlemen, that is determination. That is persistence. That is the tenacity to solve any problem that may impact us. That is the South Dakota way.

The Benchmark Foam story also shows once again that even though we are a very big state—375 miles wide and 203 miles tall—we are still one neighborhood, and in our neighborhood, we help each other through the tough times.

Every generation of South Dakotans has faced challenges similar to the ones we face now. Each previous generation met those challenges, overcame adversity, and created a better life here than before. Our generation will do the same.

Our second challenge is to survive and prosper no matter how the national economy impacts us in the next 18 months. Since 2002, the business community in South Dakota has done a fantastic job of creating thousands of new jobs. There are over 30,000 more jobs in South Dakota now than in 2002. And, for the most recent month available, from November 2007 to November 2008, we have 4,300 more jobs in South Dakota. Most of the growth is in professional and business services, education and health services, and financial activities.

Unfortunately, the national economy could very well cause a halt or decline in the great progress that our business community has made in creating jobs. From summer to fall in 2008, the job losses were more than the usual seasonal reduction. South Dakota's November 2008 unemployment rate increased to 3.4 percent. The national rate at that time was 6.7 percent. The December national rate increased to 7.2 percent, but our individual state rates have not been released yet for that time period in December.

For those people who are temporarily unemployed, unemployable, disabled, or find themselves in unfortunate situations, we have several safety net programs that are already in place. Of course, I think we all agree, the best solution for newly unemployed persons is to help them get new jobs as quickly as possible.

If Congress passes a stimulus package, I hope it will include ready-to-go construction projects to create jobs in South Dakota. However, not everyone can work in construction. That's why we already have programs in place to help anyone who loses their job. The Department of Labor has 18 local offices across the state and a very user-friendly website to help people find a new job or retrain for a new career.

Although home foreclosures have had a big impact in many other states, we have not seen dramatic increases in South Dakota yet. Through the third quarter of 2008, the foreclosure rate for the state was 1.22 percent, compared to the third quarter rate in 2007 of 1.10 percent.

The South Dakota Housing Development Authority foreclosure rate was even better in that for November 2008 it was only 0.67 percent, compared to the November 2007 rate of 0.65 percent. The federal government is providing our South Dakota Housing Development Authority with the minimum amount that it's providing all the states, \$19.6 million to be used for a couple of different plans. First of all, for home ownership assistance, for purchasing and rehabilitating homes that have been abandoned, for demolishing blighted structures, and for redeveloping demolished or vacant properties for rental.

Almost everything I've talked about so far is centered on survival. But, we are not going to merely survive these tough times. We will strive to create more prosperity, so South Dakota can become an even better place to live and to work in the future.

Let's not allow the challenges at the national level to diffuse our optimism or our efforts. We will not only survive the next 18 months, but we will also lay down the foundation now, to do even better in the future with greater growth and more prosperity for our people.

We are moving forward in many areas and we will continue to move forward in spite of national problems. In economic development, we have had a good year. We are moving forward on each of our 2010 goals. Goal number one of the Initiative is to double visitor spending from \$600 million to \$1.2 billion by the year 2010. We implemented several new ideas this past year.

First, we took advantage of the exchange rate differential between the Canadian and American dollar by targeting a special marketing campaign to the people of Canada. It caused a 21 percent increase in Canadian vacation inquiries to our website, our 1-800 number, and through the mail. Second, we made an extra effort to expand the fall season. We launched a new industry partnership program last fall that allowed us to stretch our budget so we could reach several regional markets. We also did event marketing for the Buffalo Roundup, a Harvest Festival, and a Halloween festival. One result was 1.7 million people visiting Custer State Park, the largest number since 2003.

For 2007, we had an 8.8 percent growth in visitor spending and reached the \$941 million mark. We don't have the figures yet for 2008, but we are making progress for reaching our goal of \$1.2 billion in 2010.

Goal number two is to increase our state's gross domestic product by \$10 billion, and, I'm very happy to report, we have already achieved that goal. Last summer, the figures for 2007 were announced, and we achieved our goal with our state gross domestic product of \$33.9 billion, up from \$23.9 million in 2001.

2008 was also an excellent year of great successes, but we won't have our state gross domestic product statistics until this summer sometime. We know 535 companies expanded their operations or built new plants in South Dakota last year and spent \$401 million in capital investments in their South Dakota facilities. That's the third highest capital investment in South Dakota history. Fifty-two companies received \$36 million in REDI Fund loans or other loans and grants to create 1,977 jobs, and 27 companies received workforce development grants to help train over 1,600 employees. We will continue to move forward in our projects to improve our economic development efforts with regard to goal number two.

Let's not allow the challenges at the national level to diffuse our optimism or our efforts. Let's continue to work toward those goals.

We will also continue and put special emphasis on energy development. Even though fuel prices have declined, our nation still needs to become energy independent as soon as possible, so we have better control of our own economic future.

South Dakota is already a leader in ethanol production. Since 2002, ethanol production capacity has increased by more than 500 percent, from 165 million gallons to 990 million gallons per year. We lead the nation in farmer-owned ethanol plants, and we are fourth in total ethanol production.

In 2008, South Dakota reached a production capacity of over 990 million gallons annually, which is 9 percent of the total production capacity of the United States. Tight credit markets, volatile corn prices, and an oversupply of ethanol in the market have created difficult times for the ethanol industry. But, I'm optimistic about the future of ethanol within our state, because we have companies which are leading the industry in research and development, and we recognize that adding value to our commodity products is critical to the future of small towns within our borders.

We are also boosting renewable power production in South Dakota. South Dakota is a major producer and exporter of renewable electricity. If you take a look at the South Dakota portion of the Missouri River Hydro-Power System, you will find that we produce a lot of hydroelectric power that we export. In fact, over the last 40 years, we average about 70 percent of that power being exported to the states around us. But now, we are seeing growth in different types of renewable electricity, and that growth is coming from wind power.

South Dakotans and people across the country are starting to embrace wind power for its environmental and economic benefits. More wind power means lease payments to landowners; additions to the local property tax base to help hold down taxes on everyone else; and new construction, operation, and manufacturing jobs.

To accelerate more wind power development, last year we changed the way we tax wind farms to make South Dakota's tax structure more attractive for wind power developers. The new law provides a rebate on some of the taxes that can then be used to build transmission lines and substations.

In the past 18 months, South Dakota's wind power capacity has increased from 44 megawatts to 289 megawatts. That's enough South Dakota wind power to provide electricity to over 80,000 homes.

But new development isn't stopping there. Recently, Iberdrola Renewables submitted an application to the Public Utilities Commission to build a 300+ megawatt project, with construction starting within the next year.

There are many other wind power projects in our state that are also in some stage of design or development at this time. Because South Dakota has great wind resources, but a small population compared to many other states, most of the electricity that we will create with wind will be going to other states. That's why new transmission lines are so important. So, with ethanol and wind power, South Dakota is doing an excellent job of developing renewable production for both fuels and electricity.

But, renewable energy can't supply our nation's energy demands overnight. There is a vital and continuing need for traditional energy sources for both fuels and electricity. Therefore, in the fuels arena, for our own security, for stable prices, and for adequate supply, the United States must start using more Canadian crude oil.

TransCanada has now started construction of a pipeline from Hardisty, Alberta, through North Dakota and South Dakota, down to Oklahoma and then east to Illinois that will carry 590,000 barrels of tar sands crude oil per day to American refineries.

TransCanada is now also proposing another pipeline from Hardisty, Alberta, through 280 miles of western South Dakota and then all the way down to the Gulf Coast.

This new Keystone XL Project will transport 750,000 barrels of crude oil a day. The construction phase of this 280-mile, billion dollar South Dakota segment of this project is planned to go through Harding, Perkins, Butte, Meade, Haakon, Jones, Tripp, and Gregory Counties. The project will have six South Dakota pumping stations that will initially use up to 135 megawatts of electricity. That new electrical demand will be beneficial for the affected West River electric power cooperatives.

TransCanada is also anticipating that it will pay \$17.7 million annually in local property taxes in South Dakota on this second pipeline.

Combined, the two TransCanada pipelines will have the capacity to transport 1,340,000 barrels of crude oil per day. That's enough petroleum to meet 6.48 percent of the United States' petroleum demand, or almost 10 percent of our nation's petroleum imports. But, more importantly, it's also 1.3 million barrels per day that we won't need to get from the Middle East and Venezuela. It is also enough petroleum to offset more than 22 percent of our petroleum imports from the OPEC nations.

With more crude oil from our North American continent being used to produce gasoline, diesel fuel, and jet fuel, we also need more refinery capacity to create stable prices and an adequate supply.

The Hyperion Energy Center, the proposed oil refinery near Elk Point, is moving forward with project development in South Dakota. The company is committed to being the most technologically and environmentally advanced oil refinery in the world, and we will hold them to that promise. In a vote last June, the people of Union County approved rezoning for the Hyperion Project.



This new refinery will create thousands of job opportunities and strengthen the economy of not only South Dakota but of the United States. It will process 400,000 barrels of crude oil per day to make ultra-low sulphur gasoline, ultra-low sulphur diesel fuel, and ultra-low sulphur jet fuel. The new refinery will help stabilize petroleum supplies in the Midwest, and that will be great for our farmers, our businesses, and all of us.

We also need to make sure we have enough electricity from traditional sources to meet our needs in the upper Midwest as more affordable renewable sources are developed over the next decades.

The Big Stone II partners are developing a 500- to 580-megawatt coal-fired power plant that will be built next to the older plant. It is needed to meet the power demands of our region by 2013. It will have advanced equipment and environmental controls. It is also an excellent example of how a traditional energy producer can work together with renewable energy producers.

The partners want to include an extra 1,000 megawatts of capacity on upgraded transmission lines that could be used for wind power transmission. A hearing on that proposal is being held in Minnesota today.

The Basin Electric Power Cooperative is developing a 500- to 700-megawatt coal-fired power plant near Selby that will deploy environmental control technologies that will make it the most advanced coal fired power plant in our nation. It is more than a \$2 billion construction project.

Basin Electric is also developing a 300-megawatt Combined-Combustion Cycle Natural Gas Power Generation Facility near White, South Dakota. This project is scheduled for completion in 2012 and will cost \$400 million to build.

We are experiencing an immense surge in energy development that is greater than the previous three decades combined.

In South Dakota, ladies and gentlemen, we roll out the red carpet, not the red tape, for any new potential business, but we do not cut corners.

With our ethanol production, crude oil pipelines from Canada, the nation's first new refinery since 1976, two new coal-fired plants to generate electricity, and hopefully, new transmission capacity for wind power, South Dakota is already a national leader in producing more renewable energy and providing a cleaner transition to a renewable energy future. I'm very proud of this, and I hope you are, too.

Goal number three is to become a leader in research and technology. The 2010 research centers that past legislatures created and funded are making us national leaders and also doing an excellent job of having a solid economic impact. More than \$77 million in research activities have conservatively caused an economic impact of more than \$111 million to the state of South Dakota since July 2004.

Private sector partners have invested over \$9 million in research activities and \$4 million in research infrastructure. Private equity investors have also invested more than \$12 million in collaborations with the research centers. The six current centers have also supported the work of 141 researchers and 400 of our students.

I still think there are some legislators who don't understand that almost all of these FTE or full-time equivalent increases for our researchers, graduate assistants, and student workers are funded through grants and not general funds from our state tax dollars.

Of course, the National Science Foundation's selection of Homestake as the site for the world's deepest underground science and engineering lab has really put South Dakota on the map for leadership in research and technology. We are moving forward with both deep underground labs at the 4,850-foot level and at the 7,400-foot level at Homestake. Several legislators that are still here today took the giant step forward in October 2005 to appropriate millions of dollars to build the interim lab at the 4,850-foot level and to show the National Science Foundation and the world's scientists that South Dakota was committed to scientific research.

Also, Denny Sanford stepped forward with a \$70 million donation for the construction of the lab and for educational outreach. These actions led to the NSF designating the Homestake location as the future site of the Deep Underground Science and Engineering Laboratory or DUSEL. Thank you very much to the legislature and to Denny Sanford for making these dreams come true.

2008 was another great year of progress on our underground science and engineering lab projects. Our plans for the deep lab at the 7,400-foot level are being developed. Our progress will be evaluated by the NSF at a special conference later this month at the University of California at Berkeley. Our re-entry efforts are focused on water removal, and we have already decided to accelerate the dewatering operation to get to the 8,000-foot level faster. This will also include an expansion of the water treatment plant. As of yesterday, the water had been pumped all the way down to the 4,688-foot level.

We have also already started the education and outreach activities as we plan the Sanford Science Center to promote science and math to teachers, to students, and to the public.

The "Deep Science for Everyone" tour has been an excellent success and will be in Pierre at the Riggs High School tomorrow evening in the theater at 7 p.m. Over 2,000 people have already attended this presentation in other towns.

In the past year, we have also offered physics workshops for teachers, a "Science Rocks" open house, and high school science seminars in different parts of the state.

Another part of education and outreach has been the creation of the new Davis – Bahcall Scholarships for Underground Science. They are being funded by a generous grant from the 3M Companies who have been great corporate neighbors to South Dakota.

These scholarships honor the achievements of Dr. Ray Davis and Dr. John Bahcall. Dr. Davis won the 2002 Nobel Prize in Physics for 20 years of experiments he did at the Homestake Mine to prove Dr. Bahcall's theory about neutrinos. When he was notified that he had won the Nobel Prize, Dr. Davis' first response was, "I had a lot of fun doing the work." That's the thing we hope these scholarships will do. We want students to know that, yes, being a scientist is hard work, but it is also fun to learn, to discover, and to achieve.

For many years, a group of students from the area around the Gran Sasso National Underground Laboratory in Italy have been coming to Princeton University for 3 weeks during the summer to study physics and the underground science work that is already being done at the Gran Sasso Lab in Italy. From now on, through the generosity of 3M, ten South Dakota students will join these Italian students at Princeton every year to study physics and underground science during parts of the summer. And, then our ten South Dakotans will go to the Gran Sasso Lab in Italy for a week to see how the underground experiments are being done there. When the Sanford and DUSEL labs open at Homestake, we will be inviting the Princeton professors and Italian students to come to our underground labs as well.

This past summer, two South Dakota students were the first participants. Sarah McMahon of Hartford couldn't be here today due to the weather, but Grey Hamilton of Pine Ridge is here, along with his father, Ted, and I'd just like you to recognize Grey and his dad. Grey, would you please stand and be recognized?

We are also very happy that Dr. Steven Chu has been nominated by President-elect Obama to be the next Secretary of Energy. As the Director of the Lawrence Berkeley National Laboratory, Dr. Chu authorized Dr. Kevin Lesko to lead a collaboration of scientists to develop the idea of the underground laboratory at Homestake.

Last September, Dr. Chu, who is also the winner of the 1997 Nobel Prize in Physics, visited the mine. It was my privilege to talk with him at that time. He is obviously very intelligent, but he's also a great motivator, and he believes, like we do, that the work at Homestake can promote more enthusiasm and dedication in students everywhere for science and math.

We don't expect any favors from Dr. Chu. He makes his decisions based on the facts, because he is an excellent scientist, and Homestake is a great place for many scientists to discover the basic facts of our universe.

Goal number four is to brand South Dakota as having the best quality of life in America. Every year, South Dakota is ranked as one of the “Best States” in many categories for “Business” and “Quality of Life.” During the past year for example, South Dakota ranked #1 in seven comparisons with the other 49 states. We are #1 in Entrepreneurial Friendliness, which measures 34 factors in our economy. We are #1 in the Economic Freedom Index, which measures 143 factors involving regulations, taxes, government spending, and welfare. We are #1 in the Quality of Life ranking, which measures crime data, job security, recreational opportunities, health, education, and cost of living. We are #1 in the Business Climate ranking and the Business Tax Index. And, we have the lowest state taxes per person for all 50 states, which is a #1 ranking in my book.

We also finished in the top ten in math and reading SAT scores, volunteerism rate, and low vacation costs according to Triple AAA’s tour book.

We also finished in the top three rankings according to the Camelot Index, which measures economic vitality, health, education, and lack of crime.

We have also been rated #1 and in the top five rankings in various school technology categories, such as percentage of students with access to computers, the number of students per computer, the number of students with access to high-speed internet connections, technology learning standards, opportunities for distance learning, and teacher technology standards. And, last week, United Van Lines designated us as a high inbound state for migration. More people are moving to South Dakota than moving away for the third year in a row.

This year, I am proposing an Omnibus Water Bill of \$13,535,000 so we can continue to provide good, clean water for our people and livestock. This proposal continues our acceleration of state payments for the Lewis and Clark Rural Water System, which saves money in inflation and interest, allows construction to move ahead faster, and makes a better case for higher federal funding.

It also includes appropriations for the Southern Black Hills Water System, the Black Hills Hydrology and Management Study, the Lake Andes-Wagner Research Demonstration program, and the state consolidated program for smaller water and wastewater projects. Also included is \$1.25 million for solid waste disposal and recycling projects, and \$1.5 million for construction, enhancement, or expansion of regional landfills. The bill also includes four additional water related special appropriations totaling over \$2 million for various water quality and technical assistance grants. Also included in the bill is \$6 million in federal expenditure authority for federal Clean Water Act pass-through funds and authorization of additional state funding for the Mid-Dakota Rural Water System.

Now I’d like to take a few minutes and talk about the lands of South Dakota. Our farmers, ranchers, and private landowners work very hard and make sacrifices to be good stewards of the private lands of South Dakota. Our public lands are also

managed very well to provide critical habitat for wildlife, as well as many recreational opportunities. The results of all these efforts are populations of wildlife species today in numbers that have not been seen in South Dakota for 50 years.

We also have a state parks system that is second to none in quality and the envy of many. Custer State Park is not only the jewel of South Dakota, but considered a national treasure by all those who visit. We manage our parks to maximize opportunities for our visitors to have a spectacular outdoor experience.

Our Game, Fish, and Parks Department manages over 103,000 acres of land for public enjoyment that includes 12 state parks, 42 recreation areas, 71 lakeside use areas and six nature areas. We also have 1.5 million acres of walk-in lands for public hunting.

As South Dakotans, we love our outdoors and share its glory with all who choose to visit here. We hunt and fish in very large numbers, which is in contrast to what is occurring nationally with declining participation in most states. Pheasant hunting alone generates over \$200 million in economic activity, most of which occurs in small communities across our state—all this in the space of a few short months each year.

These are wonderful opportunities we all enjoy today because the leaders who came before us understood that open space is critical to maintaining and continuing the outdoor traditions we all love and share. We have these wonderful opportunities to enjoy the outdoors of South Dakota because our farmers, ranchers, landowners, and citizens really care about the lands of South Dakota. I think we sometimes take them for granted, but they are very deserving of our gratitude and thanks.

Goal number five is to uphold our commitment to the 2010 Initiative as a work in progress. No plan is perfect, and we have to continue to adapt and rethink our ideas to improve the 2010 initiative.

In spite of the national economy, we can be optimistic, because we have a lot to offer that can boost a company's bottom line even during a recessionary time period. Even if our job statistics decline for a little while in the future, the larger downturns in other states will make companies look at us for relocations and expansions, because we have a great business climate. So, we can turn this national economic downturn into more jobs right here in South Dakota. We are going to make the right choices now and work hard to help make that happen.

Education is one of the most basic functions of our society. I want to thank all the hardworking teachers, professors, administrators, and other school, university, and technical institute workers for the work they do and the opportunities they give our young people. I hope we all take the time during this next year to thank the educators in our communities for the achievements our students have made.

Because of their hard work, test scores are up. In the Dakota Step Test for math, 59 percent of our students were proficient or advanced in 2003. In 2008, that number is now 76 percent. In the Dakota Step Test for reading, 71 percent of our students were proficient or advanced in 2003. In 2008, that number is now 84 percent.

In comparison to other states, our students are also doing very well. The National Assessment of Educational Progress is taken every 2 years. The test last year showed that in both reading and math for the fourth grade and eighth grade, our students are ahead of the national averages.

Our older students are also ahead of the national averages for ACT scores for the last 7 years. From 2001 to 2008, average ACT test scores have risen from 21.5 to 22.0 in South Dakota. The national average is only 21.1. Even though these are good scores, we can always do better, especially with our high school students. I am grateful for all our hard working teachers in all our schools who help our students achieve.

These successes for our students in our K-12 schools are also causing better transitions for those students from high school to college. Fewer students need remedial courses in our public universities. Since 2003, students needing remedial math courses have dropped from 30 percent to 21 percent, and the number of students needing remedial English courses has also decreased from 17 percent to 9 percent. That is very good news.

Also at our public universities, our students are doing better in the Collegiate Assessment of Academic Proficiency exam given at the end of the sophomore year. Over 4,500 students took the test last year, and they exceeded the national mean scores in all four major areas of testing: Writing, Reading, Mathematics, and Science Reasoning.

To help our own brain power stay in South Dakota for their post-secondary educations, we continue to offer excellent scholarships. Over the past several years, you have appropriated funding for 4,943 Opportunity Scholarships, and we are asking for 1,182 more scholarships in this budget. In recent years, we have also been able to provide 222 Dakota Corps scholarships—60 more are planned for next year. Forty-six Hagen-Harvey scholarships have been awarded, and seven more are being planned for next year.

Last year, 5,156 students earned one or more degrees from our public universities. Fall 2008 enrollments increased 2.5 percent over the previous year to a record-breaking enrollment of 32,943. Enrollments have increased now for 11 years in a row.

Some legislators in the past have complained about these university FTE increases. But, these FTEs or full-time equivalent increases are not in the bureaucracy. We need them because we need more teachers to teach more students. As I mentioned earlier, we also have additional FTEs in our 2010 research centers for nongeneral fund researchers, graduate assistants, and student workers.

Now if you were to fire all these individuals that make up these full-time equivalent positions, and you could, you would lose the federal funds and the private funding, but you would not be saving any general fund dollars. Eliminating those FTEs would also eliminate better educational opportunities for thousands of students and have no impact on the general fund.

Our four technical institutes are also doing a good job. They graduated 1,840 students last year, and also helped upgrade the technical skills of over 5,600 people who work for 538 different companies.

Here in South Dakota, like many other states, we also have a backlog of highway and bridge construction and repair projects. With accelerated funding from the federal government and the waiver of matching fund requirements, these “ready to go” projects could create many more jobs during the next two construction seasons. We hope that happens. But, beyond the short term, Congress needs to reauthorize the Surface Transportation Act this year.

High population states want our national policy to emphasize the reduction of traffic congestion. That’s important, but it is also just as important to preserve and enhance connectivity between our cities and rural areas for the safe and efficient movement of raw materials, finished products, and food throughout the nation.

Preserving access and connectivity for both rural and urban areas are critical elements in the national transportation policy that will be debated in Congress this year. So, through our governor associations, I have been emphasizing the importance of rural connections for rural states.

Here at the state level, we have challenges as well. Costs increase faster than revenues every year, and even an increase in federal funds won’t solve all our problems, because federal funds can’t be used under the current guidelines for most operations and maintenance. An interim legislative committee wrestled this summer with these difficult problems. I appreciate their efforts, and I understand some of the frustrations they expressed. There aren’t any clear or popular solutions, but we need to continue discussing the problems and various options so better solutions can perhaps be created.

Some people want to talk about tax increases right now, but the right time for that discussion is only after all other options are explored.

With the limited resources we have, our intent will be that we will expend it in the following manner. First, we will match our federal funds. Number two, we will continue to do our immediate needs, such as snow removal and maintenance. Number three, we will try to fund roads where they can create economic development opportunities and jobs, and number four, if there’s any money left, we will be doing ongoing road reconstruction.

Today, we have a very minimal amount of money available. Tax increases should be discussed, but only as a last option. We must do everything we can, within our means, before the public is asked to pay more in taxes at the pump. And, we must also remember that, if we do more in the future for our state roads and bridges, we must also include help for local roads and bridges.

Our two major challenges this session are to not spend more than what we have, and to survive and prosper no matter how the national economy impacts us over the next 18 months.

In past years, it has been easy to make promises and keep them, but this year we don't have the one-time monies in reserves to make new promises and keep them. We cannot spend more than what we have.

I know you all want to do good things. And so do I. I know you want to send more money back to your communities, and believe me, I would love to do so as well. I know, you all want to do probably more than we can do this year. I feel the same as you, but all of it takes more money, and we just don't have more money this year.

Many of the people who come to Pierre to talk to us are the tax spenders. We must always remember that the majority of the people in our state are taxpayers. If we cater to the tax spenders, they will certainly like us for a while. But, when you get back home, you will need to answer to the taxpayers, and they are the majority in every election.

You have many very important choices to make about spending or not spending this session. This year we face two problems—a short-term financial slowdown and a structural budget deficit. We can survive the first with one-time solutions. But, we must correct the second with a commitment to avoid additional ongoing spending, unless that new spending has ongoing additional revenue sources.

All of the things I talked about in the last few minutes have a common purpose—our economic development efforts, our multiple job creation strategies, our department accomplishments, the great work at Homestake, our energy supply and independence efforts, and our education advancements in our school districts and universities. All these things mean that, yes, we will meet the second challenge. We will not only survive, but we will prevail, and we will prosper no matter how the national economy impacts us over the next 18 months.

Before I close today, I want to also thank our military service men and women and our National Guard members and their families for the service and the sacrifice they make for us every day.

I want to give special recognition to the Winner School District for being honored as one of only 15 employers in the entire nation to receive the Freedom Award. It is the highest recognition given by the Department of Defense for Employer Support of the Guard. Congratulations go to the Winner School District for a job well done.



Also, at the AMVETS national meeting this past summer, the National Guard Volunteer of the Year Award was given to Tammy Chase of Sisseton, South Dakota. Congratulations, Tammy.

I want to thank our military service men and women and our National Guard members and their families for the service and the sacrifices they make for us every day. Since 2002, more than 4,000 South Dakota citizen Soldiers have deployed overseas. During 2008, more than 780 members of the South Dakota National Guard served on deployment to fight the global war on terrorism. More than 430 were in the Air National Guard, and 380 of those Airmen have returned home. More than 350 were in the Army National Guard, and 300 of those Soldiers have now returned home. We currently have 45 Air National Guard Soldiers serving overseas in Kuwait. We also have 25 Army National Guard Soldiers serving overseas. Two are in Afghanistan, two are in Iraq, and 21 are in Kosovo. This represents the lowest total number of deployed Soldiers fighting the global war on terrorism since 2002. However, we can expect future deployments within the next 2 years.

Twenty-five South Dakotans have made the ultimate sacrifice. Seven were members of our National Guard and 18 were in the regular armed forces. Two of those 25 soldiers died in 2008. They were Estelle Lee Turner and Jeremy Dean Vrooman.

Our veterans and their families continue to make enormous sacrifices for our sake. They protect our freedoms. They keep us free. But, the men and women who wear the uniform of the United States of America have also done so much more over the past 100 years. They have also liberated millions and millions of people who were oppressed and starving for the freedom we already have as our birthright.

One hundred years ago, about 15 percent of the world population was living in free and democratic nations. The other 85 percent were ruled by kings and dictators. Today, 60 percent of the world lives in freedom. It did not happen by accident. It happened, because when we or our allies were attacked, it was our family members, our fathers, our mothers, husbands, sons, and daughters who made the choice to answer the call for help.

It was our Soldiers who protected us, but they have also given freedom to billions of people in every part of the world and their descendents, who now have the political, the economic, and the personal freedoms to make their dreams come true for themselves and their children.

We are eternally grateful to the men and women who wear the uniform of the United States of America. As we do whenever we gather together, would you please join with me, as I ask all of the members of our Armed Forces, past and present, that are with us today, to please stand and be recognized for your sacrifice and your service for all the rest of us. Veterans, please stand and be recognized.

We are going through some tough times in South Dakota, but we will do much more than merely survive.

Ninety years ago this month, at the end of his state of the state speech, Governor Peter Norbeck repeated the realistic optimism that we need today by reciting “A South Dakotan’s Creed.” He said, “I believe in South Dakota, in the fertility of her soil, the warmth of her sunshine, the nurturing tenderness of her winter snows; I believe in the simple beauty of her rolling prairies and the more pretentious splendor of her western hills; and I believe that under the skies of South Dakota will continue to grow and prosper an intelligent, patriotic and God-fearing people amply able to work out and solve the perplexing problems of the future...as they have those of the past.” Even 90 years ago, Governor Norbeck had faith in the future generations of South Dakotans.

Like Governor Norbeck, I am also an optimist. I believe that, together, we can meet every challenge we face and create new prosperity so that South Dakota will become an even better place to live, to work, and to raise our families.

I want to thank you for the opportunity to visit with you today, and I would ask on all our behalf that the good Lord continue to protect not only the state, but this great United States of America. Thank you for your time and your efforts. I look forward to working with you.